

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16621
January 9, 2002**

R E S O L U T I O N

RESOLUTION T-16621. ROSEVILLE TELEPHONE COMPANY.
REQUEST TO IMPLEMENT A TEMPORARY CALIFORNIA HIGH COST
FUND-B CATCH-UP SURCREDIT IN COMPLIANCE WITH DECISION
98-09-039.

ADVICE LETTER 640 FILED ON OCTOBER 25, 2001.

SUMMARY

On October 25, 2001, Roseville Telephone Company (Roseville) filed Advice Letter 640 in compliance with Ordering Paragraph (OP) 20 of Decision (D.) 98-09-039 that required Roseville to implement a catch-up surcredit for a 3-month period relating to the California High Cost Fund (CHCF-B) claim payments received. This resolution approves a temporary three-month catch-up surcredit of 4.4846% to offset Roseville's approved claims of \$535,616 for the time period from February 1997 to August 1998. The catch-up surcredit of 4.4846% will apply to all intrastate services, except residential basic exchange service and certain other services, and will be effective March 1, 2002 through May 31, 2002. In addition, Roseville will track in a memorandum account all catch-up surcredit amounts applied to customer accounts during the March 1, 2002 through May 31, 2002 period. Any difference between the aggregate realized catch-up surcredit amount and the adopted surcredit amount will be trued-up by an Advice Letter filed within 60 days from May 31, 2002.

BACKGROUND

On October 4, 2001, the Director of Telecommunications Division (TD) ¹ requested Roseville to file an Advice Letter on or before October 25, 2001 to implement a catch-up surcredit for its approved CHCF-B claims for February 1997 through August 1998. The catch-up surcredit amount will be offset by the claims paid by TD in order to achieve revenue neutrality for Roseville.

1. D.96-10-066

In D.96-10-066, the Commission established the CHCF-B program to provide universal service subsidy support in the high cost areas of the service territories of Roseville and three other local exchange carriers (LECs). ² By establishing the CHCF-B program, the Commission is ensuring the continued availability of residential telephone basic service at affordable rates in high cost areas. The CHCF-B program will provide support for only one residential line per household. One outcome of the CHCF-B program is to reduce any disparity in residential basic telephone rates between urban and rural areas.

To prevent Roseville and the other three LECs from receiving a windfall, the four carriers are required to reduce rates for all intrastate services, except for residential basic exchange services and certain other services, ³ by amounts equal to the CHCF-B fund draws. Residential basic exchange service is excluded because the CHCF-B program supports this service in high cost areas. In addition, if reducing the rates for residential basic service is allowed, the Commission stated, "this would widen, rather than narrow, the gap between the residential rates and their costs." ⁴

2. D.98-09-039

In D. 98-09-039, the Commission partially implemented the CHCF-B program through a self-funding mechanism since the trust account for CHCF-B was not established until October 1999. Under this partial implementation, Roseville ⁵ and the three other LECs

¹ Pursuant to Decision 01-09-064, dated September 20, 2001 and effective October 1, 2001 and thereafter, TD (in concert with Information Management Service Division), not CHCF-B Administrative Committee, is now responsible for the CHCF-B payments.

² The other three carriers are Pacific Bell (Pacific), Verizon California, Inc, and Citizens Telecommunications Company of California (Citizens).

³ Other services are coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts existing on or prior to 9/15/94, ULTS services, and directory advertising.

⁴ D.96-10-066, page 209.

⁵ Resolution T-16237, dated November 19, 1998 approved Roseville surcredit of 0.8271% on provisional permanent basis.

offset their monthly draws from the CHCF-B program by a surcredit.⁶ Besides this surcredit, Roseville (as well as the other LECs) is required to implement a catch-up surcredit pursuant to OP 20 of D.98-09-039. Specifically OP 20 of D.98-09-039 states:

“Each large LEC shall file an advice letter to implement its catch-up surcredit in accordance with the instructions issued by the Director of the Telecommunications Division Each large LEC shall implement its catch-up surcredit over three calendar months.”

In addition, each LEC is required to true up its catch-up surcredit to match the amount of the claims approved by CHCF-B Administrative Committee (AC).⁷ CHCF-B AC approved the CHCF-B claims for the period from February 1997 through December 1999 (including the catch-up period from February 1997 through August 1998) on August 14, 2001.

3. D. 01-09-064

Attachment C of D.01-09-064 indicates a time-line for carrier payments under the provision of Senate Bill (SB) 669 (1999), as amended by SB 742 in 2001 (Chapter 1.5). Under the provision of D.01-09-064, once the catch-up surcredit is implemented, the Director of TD, on the 15th day of each calendar month, will instruct the Information Management Service Division to distribute the catch-up amount in three monthly installments.

NOTICE/PROTEST

The notice of Roseville's Advice Letter was published in the Commission Daily Calendar of October 29, 2001. Roseville mailed a copy of the Advice Letter to adjacent utilities and/or interested parties as requested.

DISCUSSION

The TD recommends that the Commission adopt a temporary catch-up surcredit of 4.4846% for Roseville for a 3-month period starting March 1, 2002 through May 31, 2002. The catch-up surcredit will be applied to all intrastate services provided by Roseville,

⁶ Pacific Bell implemented permanent rate reductions as a result of D.98-07-033. D.98-07-033 allows Pacific Bell to “true-up” its rate reduction with its approved fund draws from the CHCF-B program.

⁷ The claims were approved by the CHCF-B AC on August 14, 2001, prior to the implementation of D.01-09-064.

except residential basic and certain other services. The surcredit is based upon the CHCF-B claims of \$535,616 for the period from February 1997 through August 1998.

1. Adopting A Temporary Catch-Up Surcredit

The estimated catch-up surcredit rate of 4.4846% is based upon the CHCF-B approved claims of \$535,616 for the period from February 1997 through August 1998 and three month total of monthly average of 12 months ending August 31, 2001 recorded billing base. The billing base adjusts out billings for residential basic service and certain other services, uncollectibles, and billing adjustments.

The catch-up surcredit rate of 4.4846% will begin on the first day of the month and will be effective for three months, beginning March 1, 2002 and ending May 31, 2002. The estimated catch-up surcredit rate of 4.4846% will be in addition to previously adopted provisional permanent surcredit rate of 0.8271% adopted in Resolution T-16237, dated November 19, 1998. The total surcredit rate of 5.3117% will apply to all intrastate services except residential basic service and certain other services.

Pursuant to OP 27 of D.98-09-039, Roseville is required to show the permanent and catch-up surcredits as a single line item on customers' bills. In addition, Roseville will explain the CHCF-B catch-up surcredits to their customers in the free form section of the customer bill. Within 5 working days from the effective date of this resolution, Roseville will provide to the Director of TD for review and approval a copy of the catch-up surcredit explanation that will be in the free form section of the customer bill.

We will adopt the recommended catch-up surcredit rate of 4.4846% beginning on the first day of the month and ending three months later, or March 1, 2002 and ending May 31, 2002. The TD will distribute the catch-up amount in three equal monthly installments paid on the 15th day of each calendar month that Roseville's catch-up surcredit is in effect.

2. Tracking the Temporary Catch-Up Surcredit

D.96-10-066 requires Roseville to establish a memorandum account to track the catch-up surcredit rate reductions. Roseville is required to establish a separate account, entitled "Accounts Payable End User Catch-Up Claim/Surcredit" to record all catch-up surcredits applied to customer accounts during the period March 1, 2002 through May 31, 2002 (inclusive).

3. True-Up of Temporary Catch-Up Surcredit

OP 25 of D.98-09-039 mandates a true up of Roseville's catch-up surcredit with the catch-up amount of \$535,616 adopted by the Commission. Roseville will be required to file an Advice Letter within 60 days from the end of its catch-up period, or no later than July 30, 2002. Any difference between the aggregate realized catch-up surcredit and the adopted catch-up surcredit will accrue interest starting on the first day from the end of the catch-up period, or June 1, 2002, to the starting date of the true-up, whether the true-up is a surcredit or surcharge amount. The true-up surcredit/surcharge amount accrues interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday.

As part of its true-up Advice Letter filing, Roseville will provide workpapers, or make available documents at Roseville's office in Roseville, California, supporting the surcredit/surcharge amount. Roseville should expect an audit by the TD staff (or auditors operating under the direction of TD staff) to verify the true up surcredit/surcharge amount.

4. Audit Requirements

Public Utilities Code 274 requires the Commission to conduct a compliance audit of program-related costs including CHCF-B claims. The approval of Roseville claims from February 1997 through December 1999, including the catch-up period from February 1997 through August 1998, by the CHCF-B AC is subject to this audit requirement. If an audit determines that Roseville's claims should be lower than the catch-up amount of \$535,616, then the incremental amount with interest will be part of the true-up of the catch-up surcredit. Interest is based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

COMMENTS

A draft resolution, prepared by the TD staff, on the recommended catch-up surcredit was mailed on December 7, 2001, in accordance with Public Utilities Code Section 311 (g) to the parties of record in R.95-10-020/I.95-010-021, CHCF-B AC, and to Pacific, Verizon, Citizens and Roseville. TD staff received no comments on the draft resolution to date.

FINDINGS

1. Roseville Telephone Company's (Roseville's) proposed surcredit amount of \$535,616, as approved by the California High Cost Fund-B (CHCF-B) Administrative Committee for CHCF-B claims, is reasonable and should be adopted.
2. Roseville's proposed surcredit of 4.4846% applicable to all intrastate services, except residential basic service and certain other services, over three months is reasonable and should be adopted.
3. The surcredit amount will apply on the first day of the billing month, or March 1, 2002, and will apply for 3 months, or through May 31, 2002.
4. Once Roseville's catch-up surcredit is implemented, the Director of Telecommunications Division (TD), on the 15th day of each calendar month, will instruct the Information Management Service Division to distribute the catch-up amount of \$535,616 in three monthly installments that the Roseville's catch-up surcredit is in effect.
5. Roseville's proposed surcredit of 4.4846% is in addition to the current 0.8271% provisional permanent surcredit relating to the CHCF-B claims.
6. Roseville is required to show the permanent and catch-up surcredits as a single line item on customers' bills.
7. Roseville will explain the CHCF-B catch-up surcredit to their customers in the free form section of the customer bill.
8. Within 5 working days from the effective date of this resolution, Roseville will provide to the Director of TD for review and approval a copy of the catch-up surcredit explanation that will be in the free form section of the customer bill..
9. Roseville will track the catch-up surcredit rate reduction by establishing a memorandum account, entitled Accounts Payable End-User Catch-Up Claim/Surcredit.
10. Roseville will file an Advice Letter within 60 days from the end of the catch-up period, or no later than July 30, 2002.

11. Roseville will include interest, based upon the average seven-day compound yield on taxable money market funds published in the Wall Street Journal, starting on the first day from the end of the catch-up period, or June 1, 2002, to the day of the start of the actual true-up, if any.
12. Any adjustments resulting from claims audit of CHCF-B claims from February 1997 through August 1998 will be included by TD staff in the true-up calculation of the catch-up surcredit. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

THEREFORE, IT IS ORDERED that:

1. Roseville Telephone Company's (Roseville's) catch-up surcredit amount of \$535,616 and surcredit rate of 4.4846%, for the California High Cost Fund-B (CHCF-B) as filed in Advice Letter 640 by Roseville on October 25, 2001, is adopted. The catch-up surcredit rate shall apply to billings for the March 1, 2002 through May 31, 2002 time period for all intrastate services, except residential basic service, coin-sent paid calls, and contracts before September 15, 1994. The catch-up surcredit of 4.4846% is in addition to the current 0.8271% provisional permanent surcredit relating to the CHCF-B claims.
2. Once Roseville's catch-up surcredit is implemented, the Director of Telecommunications Division (TD), on the 15th day of each calendar month, shall instruct the Information Management Service Division to distribute the catch-up amount of \$535,616 in three monthly installments that the Roseville's catch-up surcredit is in effect.
3. Roseville shall show the permanent and catch-up surcredits as a single line item on customers' bills and explain the CHCF-B catch-up surcredit to their customers in the free form section of the customer bill.
4. Within 5 working days from the effective date of this resolution, Roseville shall provide to the Director of TD for review and approval a copy of the catch-up surcredit explanation that will be in the free form section of the customer bill.
5. Roseville shall track the catch-up surcredit rate reduction by establishing a memorandum account, entitled Accounts Payable End-User Catch-Up Claim/Surcredit.

6. Roseville shall file an Advice Letter within 60 days from the end of the catch-up period, no later than July 30, 2002, to true-up the catch-up surcredit.
7. Roseville shall include interest, based upon the average seven-day compound yield on taxable money market funds published in the Wall Street Journal, starting on the first day from the end of the catch-up period, or June 1, 2002, to the day of the start of the actual true-up, if any.
8. An audit of Roseville's CHCF-B claims from February 1997 through August 1998 shall be done pursuant to Public Utilities Code Section 274. The resolution addressing the true-up of the catch-up surcredit shall include the result of the audit findings in the development of the true-up surcredit/surcharge amount.

January 9, 2002

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 9, 2002. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners